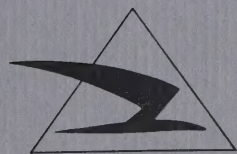


Annual Report
1968



SPARTAN

S P A R T A N
Air Services Limited
and its Subsidiaries

Annual Report

FOR THE YEAR ENDED OCTOBER 31, 1968

SUBSIDIARY COMPANIES

Sulmac Exploration Services Limited
Toronto, Canada

Velocity Surveys Limited
Calgary, Canada

Spartan Air Services, S.A.
Buenos Aires, Argentina

Meridian Airmaps Limited
Lancing, England

DIRECTORS

O. Carter

P. C. Garratt

J. J. Glenny

W. L. Kitchen

F. C. McConnell

R. W. Ticknor

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company

Toronto

Montreal

Winnipeg

Vancouver

Spartan Air Services Limited

To The Shareholders:

The year of 1968 has been a difficult one for your Company. The problem of lack of working capital and a conventional line of credit mentioned in last year's statement culminated in a loss on operations. Vigorous attempts by your Directors to correct the situation once and for all has resulted in a new senior refinancing proposal which is placed before you for your approval.

The proposal will remove all the high interest debt from your Company, create a respectable working capital position, and enable the Company to investigate more profitable outlets for its operations. It should be recognized that an infusion of this capital will have very little influence on the present year's operations due to the lateness of its timing and you should be prepared for another loss on operations during the fiscal year 1969.

Your Directors have also taken this opportunity to write off the organization and finance expense, and the excess of the cost of investment in subsidiaries. These two items are assets of no value and their removal will ensure that this and future balance sheets will show a reality.

Operations by your subsidiary companies in Calgary, Argentina and England were satisfactory during this fiscal year and their order books indicate a similar trend for the fiscal year 1969. Your Company was successful in obtaining a further contract in Tanzania for the Canadian International Development Agency to the value of \$1,000,000. This contract will commence this year but the major portion will not affect the company until the new fiscal year.

Your Company is long established and was responsible for the development of many techniques which are routine today in the exploration field. Like many innovators, it has stumbled on the way but your Board is confident the new reconstruction will enable it once more to play its full part in the future.

The Board would like to place on record its appreciation for the work carried out by your employees through a frustrating and difficult year.

Presented on behalf of the Board
N. E. Lamb, President.

Spartan Air S

(Incorporated under the laws of the State of New York)

And Subsidiaries

Consolidated Balance Sheet as of December 31, 1964

ASSETS

Current Assets:

Cash	\$ 3,916	
Deposits and accounts receivable	1,671,973	
Unbilled contract work at selling price	599,079	
Inventories (note 2)	529,384	
Prepaid expenses	<u>117,924</u>	\$2,922,276

Fixed Assets, at cost:

Land	38,913	
Aircraft and aerial cameras	2,042,107	
Other equipment	2,721,768	
Buildings on leasehold land	<u>198,950</u>	
	5,001,738	
Less accumulated depreciation	<u>3,034,228</u>	1,967,510

Other Assets:

Accounts receivable and other non-current assets		199,314
--	--	---------

\$5,089,100

Approved by the Board:

"N. E. LAMB", Director.

"H. BLOOM", Director.

Services Limited

(Incorporated in the laws of Canada)

Companies

Statement of Financial Position – October 31, 1968

LIABILITIES

Current Liabilities:

Bank advances (note 3)	\$ 351,260	
Accounts payable and accrued liabilities	1,008,702	
Loans and notes payable (note 4)	1,032,436	
Income and other taxes payable	40,234	
Advance payments on government contracts	134,317	
Principal amounts due within one year on long-term debt	313,139	\$2,880,088

Long-term debt (note 5)	929,383	
Less principal amounts included in current liabilities	313,139	616,244
Interest of minority shareholders in a subsidiary company		47,657

SHAREHOLDERS' EQUITY

Capital Stock (note 6)

Authorized:

1,350	6% Cumulative Class A preferred shares, redeemable at par value of \$100
8,500	6% Cumulative Class B preferred shares, redeemable at par value of \$100
4,000,000	Common shares without par value

Issued:

1,350	Class A preferred shares	135,000
2,527,015	Common shares	3,083,555
		<u>3,218,555</u>

Deficit (notes 7, 8)	1,673,444	1,545,111
		<u>\$5,089,100</u>

Long-Term Leases (note 10)

Subsequent Events (note 9)

Income Tax Re-Assessment (note 12)

Spartan Air Services Limited And Subsidiary Companies

Consolidated Statement of Income Year Ended October 31, 1968

Sales	\$7,877,477	
Operating costs	<u>7,894,225</u>	
Operating loss before the undernoted		\$16,748
Depreciation (note 11)	422,569	
Amortization of organization and finance expenses	34,549	
Interest on long-term debt	69,403	
Remuneration of salaried directors in their capacity as company officers	92,058	
Minority interest in earnings of a subsidiary	<u>19,351</u>	
	637,930	
Other income	<u>20,059</u>	<u>617,871</u>
Loss for the year		<u>\$ 634,619</u>

Consolidated Statement of Deficit Year Ended October 31, 1968

Deficit at beginning of year		
As previously reported		\$ 658,364
Adjustment of prior year's taxes		<u>28,936</u>
As restated		687,300
Loss for the year		634,619
Excess of cost of shares in subsidiaries over book value at acquisition		235,154
Deferred organization and finance expenses written off		<u>116,371</u>
Deficit at end of year		<u>\$1,673,444</u>

AUDITORS' REPORT

To the Shareholders of
SPARTAN AIR SERVICES LIMITED

We have examined the consolidated balance sheet of Spartan Air Services Limited and subsidiary companies as at October 31, 1968 and the consolidated statements of income and deficit for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of foreign subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1968 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting practice explained in note 13, with which change we concur.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Ottawa, Canada
April 3, 1969

Notes to Consolidated Financial Statements

Year Ended October 31, 1968

1. BASIS OF CONSOLIDATION AND CURRENCY CONVERSION

The consolidated financial statements include the accounts of Spartan Air Services Limited and those of all of its subsidiary companies.

Accounts of subsidiaries expressed in foreign currencies have been converted into Canadian dollars at the rate of exchange at October 31, 1968, except (a) fixed assets (including depreciation thereon), long-term debt and capital stock at rates prevailing at dates of acquisition or issue and (b) income and expenses (other than depreciation) at the average rates of exchange in effect during the year.

2. INVENTORIES

Spare parts and supplies	\$ 313,074
Work in process	216,310
	<u>\$ 529,384</u>

Spare parts and supplies are valued at lower of cost and net realizable value. Work in process amounting to \$57,556 is valued at cost and the balance of \$158,754 is valued at selling price less estimated profit margin.

3. BANK ADVANCES

The bank loan of a subsidiary included in bank advances in the amount of \$33,540 is secured by land which cost \$38,913.

4. LOANS AND NOTES PAYABLE

16.59% Note secured by a specific assignment of the accounts receivable	\$ 532,436
18% Loan secured by a debenture and a fixed and floating charge on the assets of the company	150,000
8.5% Loan secured by a debenture and a fixed and floating charge on the assets of the company (note 6)	350,000
	<u>\$1,032,436</u>

5. LONG-TERM DEBT

13.7% Loan payable U.S. \$11,375 monthly including interest, maturing July 3, 1972, secured by a debenture and a fixed and floating charge on the assets of the company and certain subsidiaries	\$ 434,791
Notes payable under conditional sales contracts, maturing 1968-1973	316,469
Other long-term debts of subsidiaries	178,123
	<u>\$ 929,383</u>

6. CAPITAL STOCK

The company has entered into an agreement granting an option of 700,000 common shares at 76c per share in consideration of a loan of \$350,000. Such share options are subject to obtaining approval of the Canadian Stock Exchange and the Quebec Securities Commission.

7. ARREARS OF DIVIDENDS ON CLASS A PREFERRED SHARES

Dividends on Class A preferred shares have been paid to the 1957 fiscal year and arrears amount to \$89,100.

8. DEFICIT

The deficit account includes capital surplus of \$45,700 set aside pursuant to section 61 of The Canada Corporations Act and contributed surplus of \$147,768.

9. SUBSEQUENT EVENTS

- Subsequent to the year end the company granted a chattel mortgage secured by three Bell Helicopters in consideration of a \$40,000 demand loan bearing interest at 15% per annum.
- Subsequently, the company has entered into agreements to sell its helicopter fleet and helicopter parts for \$170,000 which approximates book value.
- Proceeds of a \$200,000 demand loan bearing interest at 8 1/2% per annum was received. This loan is secured by a debenture and a fixed and floating charge on the assets of the company.

10. LONG-TERM LEASES

The company and certain of its subsidiaries rent buildings under long-term leases for various periods up to 40 years, the annual rental for which is approximately \$81,000 for each of the next five years.

11. DEPRECIATION POLICY

Aircraft and aerial cameras are depreciated on the straight-line basis at 10% per annum.
Building on leasehold land is depreciated on the straight-line basis at 5% per annum.
Other equipment is depreciated at varying rates from 10% to 30%.

12. INCOME TAX RE-ASSESSMENT

A subsidiary filed a Notice of Objection with respect to a re-assessment received in 1968 increasing 1966 income taxes by \$26,460.

Payments of \$12,000 on this re-assessment have been made to October 31, 1968, and are included in deposits and accounts receivable. No further provision has been made for the re-assessment in the accounts.

13. CHANGE IN ACCOUNTING PRACTICE

At the end of the fiscal year unamortized organization and finance expenses totalling \$116,371 were written off to the deficit account. These expenses had previously been amortized by annual charges to earnings (1968, \$34,549) and the earnings of future years will not be subject to this amortization charge.

PRINTED IN CANADA

